

Statement of
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Before the
U.S. House of Representatives
Committee on Financial Services
Subcommittee on Housing and Community Opportunity
March 24, 2004

Mr. Chairman, thank you for the opportunity to appear before you and other members of the Subcommittee about HR 3755 the Zero Downpayment Act of 2004 on behalf of the National Housing Conference (NHC).

NHC supports HR 3755, but with a strong sense of caution.

We support HR 3755 for the following reasons:

1. By reducing the FHA single family downpayment to zero under certain circumstances, more families would be able to purchase homes. These families would otherwise be unable to begin to accumulate assets and grow wealth through homeownership;
2. To the extent that homeownership stabilizes and improves communities, HR 3755 would support those positive outcomes;
3. When administered in a safe and sound manner, HR 3755 would add value to FHA's book of business and its volume, thus increasing its viability; and
4. An FHA zero downpayment product would bring FHA's national standardization in underwriting, pricing, and practices to a newly emerging segment of the market.

However, NHC's support of HR 3755 comes with a strong cautionary note. Although we applaud HUD's intentions to require prepurchase counseling, to raise the upfront MIP to 2.25%, and to maintain high credit quality standards, we would further suggest that HUD incorporate additional safe guards in its administration of the program, including:

1. Additional post purchase counseling and crisis intervention assistance, paid for by HUD funding and provided by bona fide HUD approved agencies, with mandatory referrals of loans more than 30 days delinquent;
2. Without diminishing availability to credit worthy borrowers, higher than usual credit standards for both payment ratios and FICO scores accompanied by higher than normal sampling ratios of lending practices;
3. Tight appraisal standards;
4. Careful and quick attention to any concentrations of defaults and foreclosures that may occur; and
5. Effective collaboration with local officials, agencies and organizations to ensure positive community outcomes.

In summary, Mr. Chairman, we would suggest that, following enactment, this product be treated as a trial program with careful attention to ensuring the ongoing actuarial viability of the product and very close monitoring, possibly by third parties, to ensure positive outcomes on borrowers and communities.

Assuming that these safe guards and procedures are implemented, NHC would suggest that this product be expanded to include condominiums and possibly co-ops.

In conclusion, Mr. Chairman, let me make a separate but related point. NHC strongly supports expanding homeownership opportunities for more Americans. We are, therefore, compelled to note that a continuing lack of good, affordable rental housing is diminishing that potential for a growing number of this nation's families. Many remain mired in unstable, costly, inadequate rental housing, without the ability to develop good credit histories and to accumulate those resources necessary to achieve homeownership.

Therefore, Mr. Chairman, NHC strongly urges you and your colleagues to also pay priority attention to preserving and increasing the supply of good, affordable rental housing in this nation.